

**The World Bank Group's Governance: Issues for Review**  
**From the Director General, Evaluation to the Executive Directors, May 25, 2007**

The recent leadership crisis at the World Bank Group has hurt the institution's image and credibility, and revealed issues in its governance and structure. At the same time, a crisis is an important opportunity to carry out needed reforms. Bringing in highly credible leadership to the WBG and strengthening the internal oversight and checks and balances are essential steps in that change process. This note highlights areas that need review.

IEG's statement to the Board of April 20 noted that the WBG's fundamentals remained sound, but flagged three related aspects that were beginning to hamper the institution: a) instances of disconnect between Board approved policies and their implementation; b) instances of disregard for HR policies; and c) parallel lines of authority and bypassing of the formal lines. These contributed to significant instances of inconsistent and non-transparent application of policies.

Behind these problems lies the core issue of the WBG's internal governance, which in turn cannot be divorced from WBG's place in a changing global environment and evolving aid architecture. Three aspects of internal governance are pertinent and time-sensitive: i) the process for the selection of the President and senior management; (ii) the role and functioning of the Board; and (iii) the internal system of institutional safeguards. In the wake of recent experience, it would seem imperative that there be a transparent process for selecting a new President from the best pool of talent. Equally important would be a review of the WBG's governance with independent and external inputs.<sup>1</sup>

With respect to reform in these three areas, the Board might want to review international best practice:

- **Selection and Mandate of the President and Senior Management:** Currently the nomination of the President is limited to one country, and without transparent selection criteria. The criteria should emphasize leadership, vision, and a strong commitment to development, in addition to a blend of international experience, knowledge of development, banking and finance, and diplomatic skills, and refer to as broad a group of candidates as possible. Similarly, the structure and selection of senior management needs to be based on transparent and broadly accepted selection criteria. How could the Bank introduce a stable, criteria-based, competitive and open process aimed at development results?
- **Role and Functioning of the Board:** The recent events also highlighted the need for reforms in the functioning of the Board and its relation with management, particularly its oversight through the committees to strengthen internal checks and balances. The role and mandate of the committees and their interaction with Board and management are worth reviewing and evaluating. What might be key elements of the Board's oversight, as opposed to micro-management, that are both more influential and value adding strategically, and at the same time, more selective and efficient?
- **Internal Safeguards and the System of Checks and Balances:** Also brought out is the need to look at the role of internal mechanisms for accountability, disclosure, transparency. There is the need to ensure adherence to mandated policies, including in the areas of HR, ethics and integrity, and to clarify procedures for whistleblower protection and conflict resolution. In light of international best practice, what is the assessment of the appropriateness of the current safeguards and checks and balances?

The Bank Group's role in development is crucial, while its core competencies as well as its financial base in delivering on this agenda remain strong. What is needed for a rapid recovery from the recent crisis, and a restoration of credibility in a changing global environment, are well-informed reforms in the process for the appointment of the President and in WBG's internal governance. A review of these issues and a process to make improvements need to follow.

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<sup>1</sup> For example, the IMF's Independent Evaluation Office is doing a review of Aspects of the IMF's Corporate Governance, including the role of the Board and the selection of the MD.